

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE POWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Auditor of Public Accounts has completed the audit of the Powell County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Powell County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,394,872 as of June 30, 2009. The fiscal court had unrestricted net assets of \$685,601 in its governmental activities as of June 30, 2009, with total net assets of \$3,379,886. In its business-type activities, total net cash and cash equivalents were \$14,986 with total net assets of \$14,986. The fiscal court had total debt principal as of June 30, 2009 of \$2,401,538 with \$366,726 due within the next year.

Report Comments:

- 2009-01 The Jailer Did Not Execute A Bond As Required By Law
- 2009-02 \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary
- 2009-03 The General, Jail, And Disaster Emergency Services Funds Have Deficits Totaling \$856,048
- 2009-04 The County Should Not Overspend The Budget On The General, Jail, And CSEPP Funds
- 2009-05 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2009-06 The County Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over
- 2009-07 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
- 2009-08 Interfund Transfers Of \$26,928 Were Not Approved By The County
- 2009-09 The County Should Account For Encumbrances And Unpaid Obligations Properly
- 2009-10 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2009-11 The Jail Should Comply With The State Local Finance Officer Policy Manual
- 2009-12 The Jail Should Pay All Fees To County On A Regular Basis
- 2009-13 The Jail Should Properly Account For Bonds Collected For The Circuit Court Clerk
- 2009-14 The County Should Approve A Salary Schedule
- 2009-15 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions
- 2009-16 The County Lacks Adequate Segregation Of Duties Over The Payroll Function
- 2009-17 The County Should Ensure Receipts And Expenditures Are Accounted For Properly
- 2009-18 The Jail Should Improve Controls Over Collections For Jail Fees And Inmate Moneys
- 2009-19 The Jailer Should Improve Internal Controls Over Disbursements

Deposits:

The fiscal court's deposits were fully insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Darren Farmer, Powell County Judge/Executive
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Powell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Powell County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison schedules are not a required part of the basic financial statement but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison schedules. However, we did not audit the budgetary comparison schedules and express no opinion on it.



To the People of Kentucky
 Honorable Steven L. Beshear, Governor
 Jonathan Miller, Secretary
 Finance and Administration Cabinet
 Honorable Darren Farmer, Powell County Judge/Executive
 Members of the Powell County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Powell County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2010, on our consideration of Powell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Jailer Did Not Execute A Bond As Required By Law
- 2009-02 \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary
- 2009-03 The General, Jail, And Disaster Emergency Services Funds Have Deficits Totaling \$856,048
- 2009-04 The County Should Not Overspend The Budget On The General, Jail, And CSEPP Funds
- 2009-05 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2009-06 The County Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over
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- 2009-08 Interfund Transfers Of \$26,928 Were Not Approved By The County
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- 2009-13 The Jail Should Properly Account For Bonds Collected For The Circuit Court Clerk
- 2009-14 The County Should Approve A Salary Schedule
- 2009-15 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions

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2009-16 The County Lacks Adequate Segregation Of Duties Over The Payroll Function
2009-17 The County Should Ensure Receipts And Expenditures Are Accounted For Properly
2009-18 The Jail Should Improve Controls Over Collections For Jail Fees And Inmate Moneys
2009-19 The Jailer Should Improve Internal Controls Over Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 31, 2010

POWELL COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Darren Farmer	County Judge/Executive
Walter Bud Parks	Magistrate
James L. Dennis	Magistrate
Shirley C. Crabtree	Magistrate
Ricky Creed	Magistrate
Bobby Ginter	Magistrate

Other Elected Officials:

Robert King	County Attorney
Melvin Rogers	Jailer
Rhonda Barnett	County Clerk
Darlene Drake	Circuit Court Clerk
Danny Rogers	Sheriff
Dustin Billings	Property Valuation Administrator
Carl Wells Sr.	Coroner

Appointed Personnel:

Connie Crabtree	County Treasurer
Patricia Holland	Occupational Tax Collector
Judith Denniston	Finance Officer/Payroll Clerk

POWELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

POWELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 685,601	\$ 14,986	\$ 700,587
Assets Held For Resale	102,655		102,655
Total Current Assets	<u>788,256</u>	<u>14,986</u>	<u>803,242</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	843,434		843,434
Buildings	2,605,032		2,605,032
Other Equipment	207,364		207,364
Vehicles and Equipment	597,422		597,422
Infrastructure	739,916		739,916
Total Noncurrent Assets	<u>4,993,168</u>		<u>4,993,168</u>
Total Assets	<u>5,781,424</u>	<u>14,986</u>	<u>5,796,410</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	85,000		85,000
Financing Obligations Payable	281,726		281,726
Total Current Liabilities	<u>366,726</u>		<u>366,726</u>
Noncurrent Liabilities:			
Bonds Payable	185,000		185,000
Financing Obligations Payable	1,849,812		1,849,812
Total Noncurrent Liabilities	<u>2,034,812</u>		<u>2,034,812</u>
Total Liabilities	<u>2,401,538</u>		<u>2,401,538</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,694,285		2,694,285
Unrestricted	685,601	14,986	700,587
Total Net Assets	<u>\$ 3,379,886</u>	<u>\$ 14,986</u>	<u>\$ 3,394,872</u>

The accompanying notes are an integral part of the financial statements.

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POWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

POWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,538,515	\$	\$ 69,872
Protection to Persons and Property	2,071,762	728,584	1,346,432
General Health and Sanitation	344,219	244,255	37,005
Social Services	25,800		42,566
Recreation and Culture	19,590		
Roads	519,848		1,113,480
Airports	6,000		
Debt Service	255,749		
Capital Projects	93,634		
Total Governmental Activities	4,875,117	972,839	2,609,355
Business-type Activities:			
Jail Canteen	194,846	196,960	
Total Business-type Activities	194,846	196,960	
Total Primary Government	\$ 5,069,963	\$ 1,169,799	\$ 2,609,355
General Revenues:			
Taxes:			
Real Property Taxes			
Personal Property Taxes			
Motor Vehicle Taxes			
Other Taxes			
Excess Fees			
Miscellaneous Revenues			
Accrued Interest Received			
Total General Revenues			
Change in Net Assets			
Net Assets - Beginning (Restated)			
Net Assets - Ending			

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,468,643)	\$	\$ (1,468,643)
3,254		3,254
(62,959)		(62,959)
16,766		16,766
(19,590)		(19,590)
593,632		593,632
(6,000)		(6,000)
(255,749)		(255,749)
(93,634)		(93,634)
(1,292,923)		(1,292,923)
	2,114	2,114
	2,114	2,114
(1,292,923)	2,114	(1,290,809)
319,243		319,243
250		250
101,283		101,283
1,133,520		1,133,520
23,873		23,873
60,489		60,489
8,382	196	8,578
1,647,040	196	1,647,236
354,117	2,310	356,427
3,025,769	12,676	3,038,445
\$ 3,379,886	\$ 14,986	\$ 3,394,872

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POWELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

POWELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 87,015	\$ 182,095	\$ 28,910	\$ 257,228
Interfund Receivables		324,278		200,000
Total Assets	<u>87,015</u>	<u>506,373</u>	<u>28,910</u>	<u>457,228</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Financing Obligations	430,000			
Interfund Payables			453,028	70,000
Total Liabilities	<u>430,000</u>		<u>453,028</u>	<u>70,000</u>
FUND BALANCES				
Reserved for:				
Unpaid Obligations			88,163	
Unreserved:				
General Fund	(342,985)			
Special Revenue Funds		506,373	(512,281)	387,228
Total Fund Balances	<u>(342,985)</u>	<u>506,373</u>	<u>(424,118)</u>	<u>387,228</u>
Total Liabilities and Fund Balances	<u>\$ 87,015</u>	<u>\$ 506,373</u>	<u>\$ 28,910</u>	<u>\$ 457,228</u>

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Ambulance Fund	Non- Major Funds	Total Governmental Funds
\$ 48,746	\$ 81,607	\$ 685,601
		524,278
<u>48,746</u>	<u>81,607</u>	<u>1,209,879</u>

		430,000
	1,250	524,278
	<u>1,250</u>	<u>954,278</u>

		88,163
		(342,985)
<u>48,746</u>	<u>80,357</u>	<u>510,423</u>
<u>48,746</u>	<u>80,357</u>	<u>255,601</u>
<u>\$ 48,746</u>	<u>\$ 81,607</u>	<u>\$ 1,209,879</u>

Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets:

Total Fund Balances	\$ 255,601
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	7,555,910
Depreciation	(2,562,742)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,598,883)
Bonded Debt	<u>(270,000)</u>
Net Assets Of Governmental Activities	<u>\$ 3,379,886</u>

The accompanying notes are an integral part of the financial statements.

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POWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

POWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,233,466	\$	\$	\$
In Lieu Tax Payments		63,194		
Excess Fees	23,873			
Intergovernmental	79,470	802,272	958,252	271,657
Charges for Services	249,800		33,190	
Miscellaneous	80,001	112,575	65,972	
Interest	885	3,805	418	2,332
Total Revenues	<u>1,667,495</u>	<u>981,846</u>	<u>1,057,832</u>	<u>273,989</u>
EXPENDITURES				
General Government	600,077			17,337
Protection to Persons and Property	30,101	15,272	941,878	22,500
General Health and Sanitation	284,400		42,465	15,500
Social Services	20,000			4,000
Recreation and Culture				2,000
Roads		534,581		39,126
Airports				6,000
Debt Service	16,283		239,466	
Capital Projects		93,634		
Administration	397,785	161,980	169,263	3,901
Total Expenditures	<u>1,348,646</u>	<u>805,467</u>	<u>1,393,072</u>	<u>110,364</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>318,849</u>	<u>176,379</u>	<u>(335,240)</u>	<u>163,625</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	289,794		357,500	
Transfers To Other Funds	(471,697)	(149,000)		
Total Other Financing Sources (Uses)	<u>(181,903)</u>	<u>(149,000)</u>	<u>357,500</u>	
Net Change in Fund Balances	136,946	27,379	22,260	163,625
Fund Balances - Beginning (Restated)	(479,931)	478,994	(446,378)	223,603
Fund Balances - Ending	<u>\$ (342,985)</u>	<u>\$ 506,373</u>	<u>\$ (424,118)</u>	<u>\$ 387,228</u>

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Ambulance Fund	Non- Major Funds	Total Governmental Funds
\$ 206,347	\$ 1,203	\$ 1,441,016
		63,194
		23,873
73,897	226,841	2,412,389
648,741		931,731
60,218	29,883	348,649
708	234	8,382
<u>989,911</u>	<u>258,161</u>	<u>5,229,234</u>
		617,414
858,873	279,916	2,148,540
		342,365
	1,800	25,800
	17,590	19,590
		573,707
		6,000
		255,749
		93,634
<u>149,637</u>	<u>8,375</u>	<u>890,941</u>
<u>1,008,510</u>	<u>307,681</u>	<u>4,973,740</u>
<u>(18,599)</u>	<u>(49,520)</u>	<u>255,494</u>
97,192	38,942	783,428
<u>(98,009)</u>	<u>(64,722)</u>	<u>(783,428)</u>
<u>(817)</u>	<u>(25,780)</u>	
(19,416)	(75,300)	255,494
68,162	155,657	107
<u>\$ 48,746</u>	<u>\$ 80,357</u>	<u>\$ 255,601</u>

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**POWELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

POWELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	255,494
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		211,253
Depreciation Expense		(275,977)
Disposal Of Asset Held For Resale		(115,823)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Amount		199,170
Bond Payments		80,000

Change in Net Assets of Governmental Activities	\$	354,117
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POWELL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

POWELL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 14,986
Total Current Assets	<hr/> 14,986 <hr/>
Net Assets	
Unrestricted	14,986
Total Net Assets	<hr/> \$ 14,986 <hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

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POWELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

POWELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 196,960
Total Operating Revenues	<u>196,960</u>
Operating Expenses	
Cost of Sales	110,985
Educational and Recreational	17,573
Personnel Costs	9,425
Sales Tax	7,713
Total Operating Expenses	<u>145,696</u>
Operating Income (Loss)	<u>51,264</u>
Nonoperating Revenues (Expenses)	
Interest Income	196
Inmate Refunds	<u>(49,150)</u>
Total Nonoperating Revenues (Expenses)	<u>(48,954)</u>
Change In Net Assets	2,310
Total Net Assets - Beginning	<u>12,676</u>
Total Net Assets - Ending	<u><u>\$ 14,986</u></u>

The accompanying notes are an integral part of the financial statements.

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POWELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

POWELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 196,960
Cost of Sales	(110,985)
Educational and Recreational	(17,573)
Personnel Costs	(9,425)
Sales Tax	(7,713)
Net Cash Provided By Operating Activities	<u>51,264</u>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(49,150)
Net Cash Provided By Noncapital Financing Activities	<u>(49,150)</u>
Cash Flows From Investing Activities	
Interest Earned	196
Net Cash Provided By Investing Activities	<u>196</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,310
Cash and Cash Equivalents - July 1	<u>12,676</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 14,986</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$ 51,264</u>
Net Cash Provided By Operating Activities	<u><u>\$ 51,264</u></u>

The accompanying notes are an integral part of the financial statements.

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TO FINANCIAL STATEMENTS**

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**POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet-Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Powell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Powell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Powell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Powell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Powell County Elected Officials (Continued)

- County Sheriff
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Ambulance Fund - The purpose of this fund is to account for the revenues and expenditures of the ambulance service operations.

The primary government also has the following non-major funds: CSEPP Fund, Nada Sewer Project Fund, Disaster and Emergency Services Fund, Forest Fire Fund, Homeland Security Fund, Disaster Recovery Fund, Nature Preserve Fund, Generations Center Fund, and Grants Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, LGEA Fund, Ambulance Fund, CSEPP Fund, Nada Sewer Project Fund, Disaster and Emergency Services Fund, Forest Fire Fund, Homeland Security Fund, Disaster Recovery Fund, Nature Preserve Fund, Generations Center Fund, and Grants Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-5
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County’s deposits may not be returned. The County does not have a policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Depreciation expense was charged to functions of the primary government as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 843,434	\$	\$	\$ 843,434
Total Capital Assets Not Being Depreciated	843,434			843,434
Capital Assets, Being Depreciated:				
Buildings	4,122,572	33,477		4,156,049
Other Equipment	299,007	50,510		349,517
Vehicles and Equipment	1,163,552	87,200		1,250,752
Infrastructure	916,092	40,066		956,158
Total Capital Assets Being Depreciated	6,501,223	211,253		6,712,476
Less Accumulated Depreciation For:				
Buildings	(1,460,754)	(90,263)		(1,551,017)
Other Equipment	(116,668)	(25,485)		(142,153)
Vehicles and Equipment	(548,400)	(104,930)		(653,330)
Infrastructure	(160,943)	(55,299)		(216,242)
Total Accumulated Depreciation	(2,286,765)	(275,977)		(2,562,742)
Total Capital Assets, Being Depreciated, Net	4,214,458	(64,724)		4,149,734
Governmental Activities Capital Assets, Net	<u>\$ 5,057,892</u>	<u>\$ (64,724)</u>	<u>\$ 0</u>	<u>\$ 4,993,168</u>
<u>Governmental Activities:</u>				
General Government			\$ 30,160	
Protection to Persons and Property			169,021	
General Health and Sanitation			1,854	
Roads, Including Depreciation of General Infrastructure Assets			74,942	
Total Depreciation Expense - Governmental Activities			\$ 275,977	

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Short-term Debt/Assets Held For Resale

- A. On December 6, 2007 the Powell County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust in the amount of \$115,823 for the purpose of purchasing road equipment. The road equipment was purchased to use for one year, then will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly interest payments beginning on January 20, 2008, at a rate of 4.913%. One principal payment is due on December 20, 2008. As of June 30, 2009, the lease was paid in full.
- B. On June 11, 2008, the Powell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$102,655 for the purpose of purchasing road equipment. The road equipment was purchased to use for one year, then will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement was renewed for the fiscal year. The agreement requires monthly interest payments beginning on July 20, 2008 at a rate of 3.952%. One principal payment is due on September 20, 2009. As of June 30, 2009, the principal outstanding was \$102,655.

C. Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Financing Obligations	\$ 218,478	\$	\$ 115,823	\$ 102,655	\$ 102,655
Business-type Activities					
Short-term Liabilities	\$ 218,478	\$ 0	\$ 115,823	\$ 102,655	\$ 102,655

Note 5. Long-term Debt

A. General Obligation Public Project Bonds, Series 2001

On August 9, 2001, the fiscal court issued \$780,000 of General Obligation Public Project Bonds, Series 2001, for road projects. The bonds require that semiannual interest payments be made on February 1 and August 1 of each year commencing on February 1, 2002. One principal payment will be due on August 1 of each year commencing August 1, 2002. The bonds will mature August 1, 2011. General obligation bonds are direct obligations and pledge full faith and credit of the government. As of June 30, 2009, principal outstanding was \$270,000. Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 85,000	\$ 10,184
2011	90,000	6,300
2012	95,000	2,138
Totals	\$ 270,000	\$ 18,622

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. Kentucky Local Correctional Facilities Construction Authority

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The KLCFCA issued \$510,503 of revenue bonds at various interest rates, of which the county has agreed to pay \$262,452 principal and proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2009, totaled \$91,619. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 12,838	\$ 5,887
2011	13,724	4,970
2012	14,672	3,989
2013	15,686	2,940
2014	16,770	1,818
2015	17,929	619
Totals	<u>\$ 91,619</u>	<u>\$ 20,223</u>

C. Refinancing And Expansion Of Existing Detention Facility

On July 3, 2003, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$475,000 for the purpose of refinancing and expansion of the existing detention facility. The agreement requires monthly payments of \$3,221 for 240 months to be paid in full on July 3, 2023. As of June 30, 2009, the principal balance outstanding was \$386,567. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 19,192	\$ 19,459
2011	20,204	18,447
2012	21,270	17,382
2013	22,392	16,260
2014	23,572	15,079
2015-2019	137,872	55,387
2020-2024	142,065	15,765
Totals	<u>\$ 386,567</u>	<u>\$ 157,779</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Improvements To Detention Facility

On January 7, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$495,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly payments of \$3,308 for 240 months to be paid in full on January 7, 2025. As of June 30, 2009, the principal balance outstanding was \$424,732. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 18,248	\$ 21,447
2011	19,211	20,485
2012	20,224	20,224
2013	21,290	18,405
2014	22,413	17,283
2015-2019	131,090	67,388
2020-2024	169,493	28,982
2025	22,763	392
Totals	<u>\$ 424,732</u>	<u>\$ 194,606</u>

E. Detention Facility Improvements And Expansion

On June 15, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$300,000 for improvements to the existing detention facility and the conversion of the existing senior citizens center to a holding facility for class D felons. The agreement requires monthly payments of \$2,064 for 240 months to be paid in full on June 15, 2025. As of June 30, 2009, the principal balance outstanding was \$263,120. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 10,556	\$ 14,208
2011	11,151	13,613
2012	11,780	12,984
2013	12,445	12,319
2014	13,147	11,617
2015-2019	77,730	46,090
2020-2024	102,269	21,549
2025	24,042	722
Totals	<u>\$ 263,120</u>	<u>\$ 133,102</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

F. Detention Facility Improvements And Expansion

On October 2, 2006, the Powell County Fiscal Court entered into a financing agreement with People's Exchange Bank to borrow \$475,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly principal and interest payments beginning November 1, 2006, at a rate of 5%, with the full amount to be paid in full on October 1, 2016. As of June 30, 2009, the principal balance outstanding was \$430,140. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 15,533	\$ 23,724
2011	16,410	22,799
2012	17,337	21,873
2013	18,315	20,897
2014	19,347	19,861
2015-2017	343,198	41,998
Totals	<u>\$ 430,140</u>	<u>\$ 151,152</u>

G. Improvements and General Operating

On June 29, 2007, Powell County Fiscal Court entered into a \$500,000 financing obligation agreement with the Kentucky Area Development Districts Financing Trust for the purpose of refinancing a short-term note and for the purpose of acquiring and financing certain improvements. The agreement requires variable monthly interest payments and yearly principal payments with the full amount to be paid in full on January 20, 2013. The principal balance of the agreement was \$430,000 as of June 30, 2009. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 100,000	\$ 15,094
2011	105,000	9,216
2012	110,000	7,164
2013	115,000	2,763
Totals	<u>\$ 430,000</u>	<u>\$ 34,237</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

H. Tractor

On September 27, 2006, Powell County Fiscal Court entered into a \$30,000 financing obligation agreement with the AGCO Finance, LLC for the purpose of acquiring a tractor. The agreement requires monthly principal and interest payments with the full amount to be paid in full on September 27, 2009. The principal balance of the agreement was \$2,704 as of June 30, 2009. Financing obligation payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 2,704	\$ 26
Totals	<u>\$ 2,704</u>	<u>\$ 26</u>

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 350,000	\$	\$ 80,000	\$ 270,000	\$ 85,000
Financing Obligations	<u>2,182,230</u>		<u>153,347</u>	<u>2,028,883</u>	<u>179,071</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 2,532,230</u>	<u>\$</u>	<u>\$ 233,347</u>	<u>\$ 2,298,883</u>	<u>\$ 264,071</u>

Note 6. Interest on Long-term Debt

Debt Service on the Statement of Activities includes \$130,835 in interest on financing obligations and \$17,069 in interest on general obligation bonds.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The County's required contributions for pension obligations to CERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$245,406, \$302,650, and \$249,377, respectively, which represents 100% of contributions due for fiscal years 2009, 2008, and 2007.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Powell County Fiscal Court participates in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2009, Powell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Transfers From Restricted Funds

Over the past several years the county has been transferring restricted money from the Road Fund and LGEA Fund to the General and Jail Funds. The county has repaid a portion of this money using various methods. As of June 30, 2009, the Jail Fund owes the Road Fund \$253,028, the Jail Fund owes the LGEA Fund \$200,000, the LGEA Fund owes the Road Fund \$70,000, and the D.E.S. Fund owes the Road Fund \$1,250.

Due From	Due To	July 1, 2008	Increase/ (Decrease)	June 30, 2009
Jail	Road	\$ 253,028	\$	\$ 253,028
Jail	LGEA	200,000		200,000
LGEA	Road	70,000		70,000
DES	Road	1,250		1,250
DES	CSEPP	3,150	(3,150)	
DES	Ambulance	700	(700)	
CSEPP	Ambulance	1,505	(1,505)	
		<u>\$ 529,633</u>	<u>\$ (5,355)</u>	<u>\$ 524,278</u>

Note 11. Prior Period Adjustments

The beginning net asset balance as of June 30, 2008, for governmental activities of Powell County Fiscal Court has been restated. We have increased Governmental Activities, the General Fund by \$111, and the Ambulance Fund by \$7,086 due to prior year voided checks. We have decreased the beginning balance for debt by \$1,700 to correct a prior year misstatement. Lastly, we decreased the beginning balance of capital assets by \$15,900 and decreased accumulated depreciation by \$18,710 to correct a prior year misstatement. Total beginning net asset balance restated as of June 30, 2009 is \$3,025,769.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 12. Unreserved Fund Balance - Deficit

As of June 30, 2009, the General Fund had a deficit fund balance in the amount of \$342,985. This deficit was due to borrowing for operating expenses.

As of June 30, 2009, the Jail Fund had a deficit fund balance in the amount of \$512,281. This deficit was due to transfers from restricted funds (see note 10 above), and the resulting interfund payables as well as the unpaid obligations.

As of June 30, 2009, the D.E.S. Fund had a deficit fund balance in the amount of \$783. This deficit was due to transfers from restricted funds (see note 10 above), and the resulting interfund payables.

	General	Jail	DES	Total
Cash Balance	\$ 87,015	\$ 28,910	\$ 468	\$ 116,393
Interfund Payables		(453,028)	(1,250)	(454,278)
Financing Obligations	(430,000)			(430,000)
Unpaid Obligations		(88,163)		(88,163)
Fund Balance	<u>\$ (342,985)</u>	<u>\$ (512,281)</u>	<u>\$ (782)</u>	<u>\$ (856,048)</u>

Note 13. Subsequent Event – Jail

As noted in the comments, the jail has \$39,102 of missing/undeposited receipts noted from July 1, 2009 through February 26, 2010. \$9,318 was found in the truck of a jail employee's car under the spare tire and was deposited in February 2010 reducing the missing amount to \$29,784. This matter has been referred to the Attorney General and Kentucky State Police.

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POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,257,700	\$ 1,257,700	\$ 1,233,466	\$ (24,234)
Excess Fees	1,800	1,800	23,873	22,073
Licenses and Permits	1,000	1,000		(1,000)
Intergovernmental Revenue	116,900	137,366	79,470	(57,896)
Charges for Services	173,800	173,800	249,800	76,000
Miscellaneous	26,400	26,400	80,001	53,601
Interest	1,200	1,200	885	(315)
Total Revenues	<u>1,578,800</u>	<u>1,599,266</u>	<u>1,667,495</u>	<u>68,229</u>
EXPENDITURES				
General Government	531,977	545,977	600,077	(54,100)
Protection to Persons and Property	21,655	21,655	30,101	(8,446)
General Health and Sanitation	200,500	220,966	284,400	(63,434)
Social Services	21,500	21,500	20,000	1,500
Debt Service	100,000	100,000	86,283	13,717
Administration	412,519	419,662	397,785	21,877
Total Expenditures	<u>1,288,151</u>	<u>1,329,760</u>	<u>1,418,646</u>	<u>(88,886)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>290,649</u>	<u>269,506</u>	<u>248,849</u>	<u>20,657</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	156,000	156,000	289,794	(133,794)
Transfers To Other Funds	(447,649)	(447,649)	(471,697)	24,048
Total Other Financing Sources (Uses)	<u>(291,649)</u>	<u>(291,649)</u>	<u>(181,903)</u>	<u>(109,746)</u>
Net Changes in Fund Balance	(1,000)	(22,143)	66,946	(89,089)
Fund Balance - Beginning	<u>1,000</u>	<u>22,143</u>	<u>20,069</u>	<u>2,074</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 87,015</u>	<u>\$ (87,015)</u>

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

**Reconciliation of the Budgetary Comparison Schedule to Statement of
Revenues, Expenditures, and Changes in Fund Balances**

Total Expenditures	\$ 1,418,646
Payment on Short-term debt principal not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	<u>(70,000)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ 1,348,646</u>
 Fund Balance - Ending	 \$ 87,015
Short-term debt financing not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	<u>(430,000)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ (342,985)</u>

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 28,000	\$ 63,194	\$ 63,194	\$
Intergovernmental Revenue	860,290	860,290	802,272	(58,018)
Miscellaneous	140,000	140,000	112,575	(27,425)
Interest	4,700	4,700	3,805	(895)
Total Revenues	<u>1,032,990</u>	<u>1,068,184</u>	<u>981,846</u>	<u>(86,338)</u>
EXPENDITURES				
Protection to Persons and Property			15,272	(15,272)
General Health and Sanitation	500	500		500
Roads	765,100	765,100	534,581	230,519
Debt Service	100,000	100,000	93,634	6,366
Administration	181,390	221,300	161,980	59,320
Total Expenditures	<u>1,046,990</u>	<u>1,086,900</u>	<u>805,467</u>	<u>281,433</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(14,000)</u>	<u>(18,716)</u>	<u>176,379</u>	<u>195,095</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	20,000	20,000		20,000
Transfers To Other Funds	(156,000)	(156,000)	(149,000)	(7,000)
Total Other Financing Sources (Uses)	<u>(136,000)</u>	<u>(136,000)</u>	<u>(149,000)</u>	<u>13,000</u>
Net Changes in Fund Balance	(150,000)	(154,716)	27,379	(182,095)
Fund Balance - Beginning	<u>150,000</u>	<u>154,716</u>	<u>154,716</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 182,095</u>	<u>\$ (182,095)</u>

**Reconciliation of the Budgetary Comparison Schedule to Statement of
Revenues, Expenditures, and Changes in Fund Balances**

Fund Balance - Ending	\$ 182,095
Restricted Transfers Receivable	<u>324,278</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ 506,373</u>

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 990,700	\$ 990,700	\$ 958,252	\$ (32,448)
Charges for Services	21,100	21,100	33,190	12,090
Miscellaneous	70,000	70,000	65,972	(4,028)
Interest	300	300	418	118
Total Revenues	1,082,100	1,082,100	1,057,832	(24,268)
EXPENDITURES				
Protection to Persons and Property	928,621	928,621	941,878	(13,257)
General Health and Sanitation	47,462	47,462	42,465	4,997
Debt Service	254,252	254,252	239,466	14,786
Administration	212,414	218,564	169,263	49,301
Total Expenditures	1,442,749	1,448,899	1,393,072	55,827
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(360,649)	(366,799)	(335,240)	31,559
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	360,149	360,149	357,500	2,649
Total Other Financing Sources (Uses)	360,149	360,149	357,500	2,649
Net Changes in Fund Balance				
	(500)	(6,650)	22,260	(28,910)
Fund Balance - Beginning	500	6,650	6,650	
Fund Balance - Ending	\$ 0	\$ 0	\$ 28,910	\$ (28,910)

**Reconciliation of the Budgetary Comparison Schedule to Statement of
Revenues, Expenditures, and Changes in Fund Balances**

Fund Balance - Ending	\$ 28,910
Restricted Transfers Payable	<u>(453,028)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ (424,118)</u>

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 220,000	\$ 220,000	\$ 271,657	\$ 51,657
Miscellaneous	5,000	5,000		(5,000)
Interest	600	600	2,332	1,732
Total Revenues	225,600	225,600	273,989	48,389
EXPENDITURES				
General Government	19,307	19,307	17,337	1,970
Protection to Persons and Property	15,000	15,000	22,500	(7,500)
General Health and Sanitation	15,500	15,500	15,500	
Social Services	5,000	5,000	4,000	1,000
Recreation and Culture	2,000	2,000	2,000	
Roads	115,000	115,000	39,126	75,874
Airports	6,000	6,000	6,000	
Administration	12,793	66,396	3,901	62,495
Total Expenditures	190,600	244,203	110,364	133,839
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	35,000	(18,603)	163,625	182,228
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	10,000	10,000		(10,000)
Transfers To Other Funds	(85,000)	(85,000)		85,000
Total Other Financing Sources (Uses)	(75,000)	(75,000)		75,000
Net Changes in Fund Balances	(40,000)	(93,603)	163,625	257,228
Fund Balances - Beginning	40,000	93,603	93,603	
Fund Balances - Ending	\$ 0	\$ 0	\$ 257,228	\$ 257,228

**Reconciliation of the Budgetary Comparison Schedule to Statement of
Revenues, Expenditures, and Changes in Fund Balances**

Fund Balance - Ending	\$ 257,228
Restricted Transfers Receivable	200,000
Restricted Transfers Payable	<u>(70,000)</u>
Fund Balance - Ending - Modified Cash Basis	<u>\$ 387,228</u>

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 175,000	\$ 175,000	\$ 206,347	\$ 31,347
Intergovernmental Revenue	85,000	85,000	73,897	(11,103)
Charges for Services	835,000	835,000	648,741	(186,259)
Miscellaneous	3,000	3,000	60,218	57,218
Interest	10,000	10,000	708	(9,292)
Total Revenues	<u>1,108,000</u>	<u>1,108,000</u>	<u>989,911</u>	<u>(118,089)</u>
EXPENDITURES				
Protection to Persons and Property	980,500	980,500	858,873	121,627
Administration	266,500	324,413	149,637	174,776
Total Expenditures	<u>1,247,000</u>	<u>1,304,913</u>	<u>1,008,510</u>	<u>296,403</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(139,000)</u>	<u>(196,913)</u>	<u>(18,599)</u>	<u>178,314</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	138,500	138,500	99,397	(39,103)
Transfers To Other Funds			(98,009)	(98,009)
Total Other Financing Sources (Uses)	<u>138,500</u>	<u>138,500</u>	<u>1,388</u>	<u>(137,112)</u>
Net Changes in Fund Balances	(500)	(58,413)	(17,211)	41,202
Fund Balances - Beginning	<u>500</u>	<u>58,413</u>	<u>65,957</u>	<u>7,544</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,746</u>	<u>\$ 48,746</u>

POWELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The General Fund expenditures exceeded budgeted appropriations by \$88,886. After taking into account outstanding liabilities, the Jail fund expenditures exceeded budgeted appropriations by \$32,336.

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**POWELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

POWELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	CSEPP Fund	Disaster And Emergency Services Fund	Forest Fire Fund	Homeland Security Fund	Disaster Recovery Fund
ASSETS					
Cash and Cash Equivalents	\$ 24,950	\$ 468	\$ 2,363	\$ 7,336	\$ 408
Total Assets	<u>24,950</u>	<u>468</u>	<u>2,363</u>	<u>7,336</u>	<u>408</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Interfund Transfers		1,250			
Total Liabilities		<u>1,250</u>			
FUND BALANCES					
Unreserved:					
Special Revenue Funds	24,950	(782)	2,363	7,336	408
Total Fund Balances	<u>24,950</u>	<u>(782)</u>	<u>2,363</u>	<u>7,336</u>	<u>408</u>
Total Liabilities and Fund Balances	<u>\$ 24,950</u>	<u>\$ 468</u>	<u>\$ 2,363</u>	<u>\$ 7,336</u>	<u>\$ 408</u>

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2009
(Continued)

Nature Preserve Fund	Generations Center Fund	Grants Fund	Total Non-Major Governmental Funds
\$ 21,255	\$ 15,000	\$ 9,827	\$ 81,607
21,255	15,000	9,827	81,607
			1,250
			1,250
21,255	15,000	9,827	80,357
21,255	15,000	9,827	80,357
\$ 21,255	\$ 15,000	\$ 9,827	\$ 81,607

The accompanying notes are an integral part of the financial statements.

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POWELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

POWELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	CSEPP Fund	Nada Sewer Project Fund	Disaster And Emergency Services Fund	Forest Fire Fund
REVENUES				
Taxes	\$	\$	\$	\$ 1,203
Intergovernmental	177,382		2,682	
Miscellaneous				
Interest				
Total Revenues	<u>177,382</u>	<u></u>	<u>2,682</u>	<u>1,203</u>
EXPENDITURES				
Protection to Persons and Property	231,248		13,006	
Social Services		1,800		
Recreation and Culture				
Administration	7,824		551	
Total Expenditures	<u>239,072</u>	<u>1,800</u>	<u>13,557</u>	<u></u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(61,690)</u>	<u>(1,800)</u>	<u>(10,875)</u>	<u>1,203</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	7,864		15,150	
Transfers To Other Funds		(201)		
Total Other Financing Sources (Uses)	<u>7,864</u>	<u>(201)</u>	<u>15,150</u>	<u></u>
Net Change in Fund Balances	(53,826)	(2,001)	4,275	1,203
Fund Balances - Beginning	78,776	2,001	(5,057)	1,160
Fund Balances - Ending	<u>\$ 24,950</u>	<u>\$ 0</u>	<u>\$ (782)</u>	<u>\$ 2,363</u>

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

Homeland Security Fund	Disaster Recovery Fund	Nature Preserve Fund	Generations Center Fund	Grants Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$	\$
	32,973	804		13,000	1,203
29,883					226,841
		234			29,883
					234
29,883	32,973	1,038		13,000	258,161
35,662					279,916
					1,800
		1,340		16,250	17,590
					8,375
35,662		1,340		16,250	307,681
(5,779)	32,973	(302)		(3,250)	(49,520)
	15,928				38,942
	(64,521)				(64,722)
	(48,593)				(25,780)
(5,779)	(15,620)	(302)		(3,250)	(75,300)
13,115	16,028	21,557	15,000	13,077	155,657
\$ 7,336	\$ 408	\$ 21,255	\$ 15,000	\$ 9,827	\$ 80,357

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darren Farmer, Powell County Judge/Executive
Members of the Powell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated March 31, 2010. Powell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Powell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Powell County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Powell County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2009-15, 2009-16, 2009-17, 2009-18, and 2009-19.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider these significant deficiencies to be material weaknesses: 2009-15, 2009-16, 2009-17, 2009-18, and 2009-19.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County's financial statements as of and for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, 2009-06, 2009-07, 2009-08, 2009-09, 2009-10, 2009-11, 2009-12, 2009-13, and 2009-14.

The Powell County Judge/Executive's and Powell County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Judge/Executive's and Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 31, 2010

**POWELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

**POWELL COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

STATE LAWS AND REGULATIONS:

2009-01 The Jailer Did Not Execute A Bond As Required By Law

During our audit, we discovered the County Jailer did not have a bond as required by law. The Jailer was appointed jailer on March 31, 2009. KRS 71.010 requires the Jailer to execute bond to the Commonwealth in the minimum amount of ten thousand dollars (\$10,000), with sureties approved by the fiscal court, which shall record the approval in its minutes and shall file the bond with the county clerk. Also, according to KRS 62.050(3), each person appointed to an office who is required to give bond shall give the bond within thirty (30) days after he receives notice of his appointment. However, when auditors reviewed the recorded official bonds in the County Clerk's office, the bond for the Jailer was not found. Upon inquiry of the Jailer, he stated he applied for a bond; however, one must have never been received or executed.

When the Jailer became aware he had no bond, he contacted the bonding company and did receive a bond; however, the effective date of the bond was March 12, 2010, which is more than 30 days after he received his appointment as Jailer on March 31, 2009.

According to OAG 83-483, when the jailer did not meet this 30-day deadline, the office of jailer became vacant by operation of law on the 31st day after he received notice of his appointment, and the office has been vacant ever since. OAG 83-483 states, in part, "once the jailer passed the deadline without making bond, the office became vacant. . . . There is simply no provision of statutory law permitting the making of effective bond after the deadline" Thus, according to the Attorney General's opinion, the office of jailer is still currently vacant, and the fact that the person filling the office has executed a bond now, a year after the vacancy occurred by operation of law, does not operate to allow the person filling the office to remove the vacancy.

We recommend the Judge/Executive consult with the County Attorney and, considering KRS 415.040, the Commonwealth's Attorney about this situation, to determine whether the office of jailer has been vacant since 30 days after March 31, 2009, and if so, the need to fill the vacancy by the Judge/Executive appointing someone to the office in accordance with KRS 63.220, and to ensure that the person appointed executes a new bond within 30 days of being notified of their appointment.

County Judge/Executive Darren Farmer's Response: Upon review by County Attorney and Commonwealth Attorney the Judge was allowed to Re-appoint current jailer and to revise the performance bond as required by law.

County Jailer Melvin Rogers' Response: On April 8, 2010, I went to insurance agency and reapplied for the bond.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-02 \$48,088 Of Missing And Undeposited Receipts Were Noted In The Jail Commissary

Based on the available records, auditors identified \$48,088 of missing and undeposited receipts in the jail commissary. Of this amount, \$6,014 of collections was not deposited into the bank for April 1, 2009 through June 30, 2009. The remaining \$39,102 of collections was not deposited into the bank for July 1, 2009 through February 26, 2010. In addition, \$2,972 of cash collections for booking and bond/release fees were not brought to the county and are still due them. On February 25, 2010, \$9,318 of cash, checks and money orders was recovered from a deputy jailer's car under a spare tire, leaving \$29,784 still missing. Based on information gathered, of these undeposited receipts \$30,391 appears to be due the county for unpaid booking and bond/release fees, the remaining \$17,697 appears to be commissary profits to be used for the inmates.

The jailer should ensure all collections for each business day be deposited intact daily and then reconciled to the daily checkout and the receipts journal. The receipts journal should have a column for each category of receipts and a grand total for each business day. Any discrepancies between the daily checkout sheets and receipts journal to the bank deposits should be investigated and explained.

County Jailer Melvin Rogers' Response: Swanson Inc. took over our commissary on 2-18-10 and is now taking our orders two days a weekly. Two people are initialing each receipt for cash and two people are taking daily deposits to the bank. The only days that are missed are days where there is no cash activity. Bonds and release fees are accounted for in the same way except that I, Melvin R., has the only key to the bond box and myself and one other person accounts for the cash and record keeping in the bond receipt book.

2009-03 The General, Jail, And Disaster Emergency Services Funds Have Deficits Totaling \$856,048

The Powell County Fiscal Court transferred restricted money from the Road, Local Government Economic Assistance (LGEA), Chemical Stockpile Emergency Preparedness Program (CSEPP), and Ambulance Funds to the Jail, LGEA, Disaster Emergency Services (D.E.S), and CSEPP Funds. The County has repaid a portion of the money. A schedule of transfers from restricted accounts and calculation of deficit fund balances is as follows:

Due From	Due To	July 1, 2008	Increase/ (Decrease)	June 30, 2009
Jail	Road	\$ 253,028	\$	\$ 253,028
Jail	LGEA	200,000		200,000
LGEA	Road	70,000		70,000
DES	Road	1,250		1,250
DES	CSEPP	3,150	(3,150)	
DES	Ambulance	700	(700)	
CSEPP	Ambulance	1,505	(1,505)	
		<u>\$ 529,633</u>	<u>\$ (5,355)</u>	<u>\$ 524,278</u>

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-03 The General, Jail, And Disaster Emergency Services Funds Have Deficits Totaling \$856,048 (Continued)

	General	Jail	DES	Total
Cash Balance	\$ 87,015	\$ 28,910	\$ 468	\$ 116,393
Interfund Payables		(453,028)	(1,250)	(454,278)
Financing Obligations	(430,000)			(430,000)
Unpaid Obligations		(88,163)		(88,163)
Fund Balance	<u>\$ (342,985)</u>	<u>\$ (512,281)</u>	<u>\$ (782)</u>	<u>\$ (856,048)</u>

KRS 42.455 (2), (3) and (4) specifically prohibits the expenditure of LGEA funds for administration of the government and also states coal impact counties must expend 100% of funds in transportation. The fiscal court used a portion of the coal impact funds for expenditures other than transportation. These non-allowable expenditures are due back to the LGEA Fund to be expended for transportation. Also, the Road Fund is restricted for transportation, with the exception of the amount calculated on the Road Fund Allocation Worksheet. The expenditures exceeded the budgeted amount that could be used for purposes other than transportation during the fiscal year. As a result, the Road Fund is due the amount that was expended in excess of the allowable allocation.

We recommend that the fiscal court seek guidance from the Department for Local Government and the County Attorney on the necessary actions to be taken to eliminate deficit fund balances.

County Judge/Executive Darren Farmer's Response: No new deficits have been incurred by this administration, repaid as revenues allow.

2009-04 The County Should Not Overspend The Budget On The General, Jail And CSEPP Funds

The County overspent the budget by \$88,886 in the general fund, \$32,336 in the jail fund, and \$16,682 in the CSEPP fund. The County budgeted \$1,329,760, \$1,448,899 and \$222,390 for expenditures of the General, Jail and CSEPP funds, respectively. However, the county expended \$1,418,646 from the general fund, \$1,481,235 from the jail fund after taking into account unpaid obligations of \$88,163 and \$239,072 from the CSEPP fund. KRS 68.300 states, in part, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." The county should have obtained budget amendments for additional revenues received during the fiscal year that were not in the original budget. We recommend the county contact The Department of Local Government (DLG) for guidance on obtaining budget amendments. We further recommend expenditures not be made in excess of the budget, in order to be in compliance with KRS 68.300.

County Judge/Executive Darren Farmer's Response: County confers regularly with DLG concerning financial issues.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-05 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer

The Fiscal Court is required to submit a quarterly report to the State Local Finance Officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. The following was noted relating to the 4th quarterly report submitted to the State Local Finance Officer:

- \$88,163 of unpaid liabilities were incurred but not reported on the report. No encumbrances were reported.
- \$6,444 of road fund expenditures were not included in the appropriation condition report however these were included in total expenditures on the summary and reconciliation page.
- The original budget amounts were not accurate. Original budgeted receipts were overstated in the Jail Fund by \$15,000 and \$1,000 in the Ambulance Fund. Original budgeted expenditures were overstated by \$8,800 in the General fund and \$40,000 in the CSEPP fund.
- The budget amendments amounts were also not accurate. The budget amendments were overstated by \$116,570 in the General fund and \$32,124 in the CSEPP fund.
- The prior year surplus amount for the General fund was overstated by \$7,233 and the Ambulance fund was understated by \$7,381. In addition, voided checks were not accounted for properly for the Ambulance fund. \$7,321 of voided checks was subtracted instead of being added to the prior year balance.
- Receipts were overstated by \$6,613 in the General fund and \$21,310 in the Ambulance fund. Expenditures were overstated by \$13,938 in the general fund and were understated by \$455 in the Ambulance fund. This was due to the county posted prior year deposits in transit and outstanding checks in the current ledgers.
- \$2,704 of outstanding debt was not reported on the Liabilities section for road fund equipment lease and outstanding debt was overstated by \$506,849.

Taking in to account the actual expenditures and any unpaid obligations the County incurred but did not record on the 4th quarter report, the County exceeded budget capacity for the following funds:

- General Fund was overspent by \$88,886.
- Jail Fund was overspent by \$32,336.
- CSEPP Fund was overspent by \$16,682.

By not accurately completing the 4th quarter financial report, the Fiscal Court could not properly monitor receipts and expenditures to manage the County appropriately. We recommend the Fiscal Court review the State Local Finance Officer policy manual to ensure proper recording and reporting of receipts and disbursements of the County.

County Judge/Executive Darren Farmer's Response: Treasurer will make sure quarterly reports are accurate.

POWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-06 The County Should Comply With KRS 424.260 And Bid All Expenditures Of \$20,000 And Over

The county purchased a vehicle and built a building from the CSEPP fund for fiscal year 2009. Since both of these expenditures were over \$20,000, \$34,477 for the building and \$24,900 for the 2005 Dodge truck, the county should have advertised for bids. However, neither of these was advertised for bid. KRS 424.260 states when the county makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. We recommend the county comply with KRS 424.260 and advertise for bids for purchases of \$20,000 and more.

County Judge/Executive Darren Farmer's Response: CSEPP Director was misinformed as to the bid process for CSEPP equipment. All future equipment will have to be bid as to KRS 424.260.

2009-07 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days

During the course of our audit, we found that numerous invoices were not paid in a timely manner. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. As of June 30, 2009, the Jail Fund had unpaid obligations of \$88,163. The county did not have the available cash balance to pay for these unpaid obligations. Also, we noted the county paid \$2,394 of finance charges for late payment made for worker's compensation and \$1,000 in penalties for late payment made on retirement paid to the CERS. Had these payments been paid timely, the county would not have incurred these charges. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

County Judge/Executive Darren Farmer's Response: If funds are available within the thirty days, invoices will be paid on a timely basis. Currently, our county jail is over burdening the General Fund and Jail Fund.

2009-08 Interfund Transfers Of \$26,928 Were Not Approved By The County

During testing of interfund transfers, we discovered that the county did not approve interfund cash transfers of \$26,928. These consist of transfers made in the month of August 2008. KRS 68.290 states: "The fiscal court may transfer money from one (1) budget fund to another to provide for emergencies or increases or decreases in county employment pursuant to KRS 64.530(4). We recommend the fiscal court approve all transfers in the future and provide documentation within the minutes to be in compliance with KRS 68.290. We further recommend that the Treasurer seek approval from the Fiscal Court prior to performing interfund transfers.

County Judge/Executive Darren Farmer's Response: Transfers are being presented to Fiscal Court monthly and documented in minutes and Fiscal Court Order Book.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-09 The County Should Account For Encumbrances And Unpaid Obligations Properly

The county did not report any encumbrances on the fourth quarter financial statement that was provided to the Department of Local Government (DLG) and auditors. During expenditures testing, auditors noted invoices were being paid late. Based on information gathered, auditors confirmed or tested outstanding liabilities for fiscal year ending June 30, 2009. Auditors reviewed invoices paid during July 2009 and December 2009 to determine the amount the county encumbered as liabilities to the fiscal year 2009 for report presentation in the financial statements. Based on our work, the Jail Fund had unpaid obligations of \$88,163. The county did not have the available cash balance to pay for the unpaid obligations noted for the Jail Fund. We recommend the county report all encumbrances by including all outstanding liabilities at the end of the fiscal year on the fourth quarter financial statement. They should maintain a list of these encumbrances and the county should not encumber more than the available cash balance in each fund.

County Judge/Executive Darren Farmer's Response: Staff is made aware that encumbrances will be included ending June 30th, 2010.

2009-10 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code, Ethics Code and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

County Judge/Executive Darren Farmer's Response: The full Administrative Code, Ethics Code and Personnel Policy will be reviewed by Fiscal Court before June 30th, 2010. Fiscal Court is considering amendments to the Codes currently.

2009-11 The Jail Should Comply With The State Local Finance Officer Policy Manual

The jail did not comply with the State Local Finance Officer Policy Manual. Daily deposits were not made. Checkouts were not prepared daily. The jail commissary did not maintain a receipt journal that included all receipts collected separated into appropriate categories. No disbursements journal was maintained. The jail commissary summary and reconciliation was not accurate and was adjusted by \$45,910 in receipts and \$40,681 in expenditures to agree to the amounts per the bank.

Based on the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210, the jail should maintain daily checkout sheets, jail commissary receipts journal, jail commissary disbursements journal and jail commissary summary and reconciliation. Daily deposits are required. At the end of each business day, receipts should be separated into categories listed on the checkout. The total of each category should be entered in the appropriate space provided. The daily checkout total should equal the amount of money on hand at the end of each day less startup cash. A maximum of fifty dollars shall be used for startup for the business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. When total collections match the total cash on hand, then receipts should be posted to the jail commissary receipts journal on a daily basis. The total amount category should agree with the deposited amount on the daily checkout sheet. Each check written must be posted to the proper category listed, such as inmate account refund, entertainment expenses, state payroll, other expenses and inventory. Checks should be issued for all expenditures. The year to date summary section should be compiled using totals from the receipts and disbursements journals.

POWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-11 The Jail Should Comply With The State Local Finance Officer Policy Manual
(Continued)

We recommend the jail comply with the State Local Finance Officer Policy Manual and maintain daily checkout sheets, jail commissary receipts journal, jail commissary disbursements journal and jail commissary summary and reconciliation.

County Jailer Melvin Rogers' Response: Now that we have been made aware of this, it will be corrected.

2009-12 The Jail Should Pay All Fees To County On A Regular Basis

The jail collects cash from inmates and inmates' families to pay for booking fees, bond/release fees and housing fees as well as to purchase items from the jail commissary. Inmate collections were posted in the Mugshot computer system that accounts for each inmate's funds, jail fees and commissary purchases. Jail fees including booking and bond/release fees entered into the system and any remaining balance in the inmate's account were either paid to the county or the inmate by check from the jail commissary bank account. However, not all collections were posted in the computer, and cash collected from inmates who had cash available upon incarceration or upon release were only accounted for on inmate booking and bond/release account sheets. These cash amounts were given to the treasurer on a varying basis.

Based on the Mugshot reports for fiscal year 2009, \$22,015 was collected for booking and bond/release fees and should have been paid by check to the county. However, only \$9,726 was paid by check to the fiscal court, leaving \$12,289 due the county for fiscal year 2009. Based on the Mugshot reports for July 1, 2009 through February 26, 2010, \$24,145 was collected for booking and bond/release fees and should have been paid by check to the county. However, only \$9,013 was paid by check to the fiscal court, leaving \$15,132 due the county for July 1, 2009 through February 26, 2010. It appears these fees were unpaid due to the undeposited receipts as noted in comment #2009-02.

We compiled cash amounts collected per the inmate booking and bond/release fees account sheets and compared them to the amount of cash turned into the county for the period of February 24, 2009 through June 22, 2009. \$15,730 was posted to the account sheets as being collected, however, only \$12,758 of cash was turned into the county for booking and bond/release fees. It appears that \$2,972 was collected in cash and is missing, increasing the amount of missing and undeposited receipts for the fiscal year. We could not determine that total cash amount of booking and bond/release fees collected were turned over to the county for the fiscal year 2009, due to missing or destroyed records.

County Jailer Melvin Rogers' Response: Presently I am only person who has a key to the bond box. We count the money and it is witnessed by two people. Two people take the money to the bank and initial the deposit receipt. Deposits are daily unless no cash is collected that day for bonds. Commissary deposits are made daily by two people.

POWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-13 The Jail Should Properly Account For Bonds Collected For The Circuit Court Clerk

The jail collects cash bonds from inmates for the Circuit Court Clerk (CCC) on nights and weekends. Prenumbered receipts from the Circuit Court Clerk's office are utilized. Then jail personnel bring the receipts and cash collections to the CCC. Receipts numbers and cash are accounted for and jail personnel must sign documentation on moneys turned in. We reviewed the Circuit Court Clerk's records from July 1, 2008 through February 24, 2010 and determined there were 3 missing bond receipts. Of these, one receipt should have been for an inmate that paid \$750 at the jail. These funds were not turned into the CCC's office. The individual was able to provide proof of payment. The jailer then paid \$750 of personal funds to CCC's office and the individual's case was credited. However, there are an additional two bond receipts that are not accounted for and potentially more money could be missing. We recommend the jailer require all bond receipts maintained and be turned in to the CCC's office daily.

County Jailer Melvin Rogers' Response: I believe that the bonds are currently being handled correctly. At present, I have the only key to the bond box. It is opened almost daily with myself and one person counting the cash and verifying the bonds.

2009-14 The County Should Approve A Salary Schedule

The County did not approve and set the salaries for the County employees. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every County officer and employee. We recommend the County list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.

County Judge/Executive Darren Farmer's Response: Salary schedule will be presented to Fiscal Court for approval.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL OVER FINANCIAL REPORTING - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

2009-15 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions

The County has a lack of segregation of duties over receipt, disbursement, and record-keeping functions. Typically when one person is in charge of these functions, strong compensating controls are needed. The treasurer posts receipts, disbursements, and prepares bank reconciliations and reports. Other office staff helps in completing these procedures however they were not documented by initialing supporting reports. Furthermore, the county has various mispostings in receipts and disbursements, check numbers not used in sequence and errors on the financial reports. We recommend the following procedures be implemented to strengthen internal controls over these various functions:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for. The person can document this by initialing the receipts ledgers and verifying the receipts are posted to the correct account codes.
- An independent person should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice. Also, the employee should ensure the check numbers agree to the check register and vouchers and the expenditures are posted to the appropriate account code.

County Judge/Executive Darren Farmer's Response: County will attempt to comply with these findings by assigning job tasks.

2009-16 The County Lacks Adequate Segregation of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the payroll function. The payroll clerk enters the information necessary to process the payroll into the computer system, prepares the documentation, including the checks, to transfer monies from the County's Funds into the payroll revolving account, posts the payroll expenditures to the appropriations ledger, reconciles the payroll bank account, prepares and pays withholding reports.

Segregation of duties over payroll functions of cash transfers, preparation of checks, disbursements posting and reconciliation of bank records to source documents or implementation of compensating controls when limited by staff size is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL OVER FINANCIAL REPORTING - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES (Continued)

2009-16 The County Lacks Adequate Segregation Of Duties Over The Payroll Function
 (Continued)

Because one employee handled all payroll functions and oversight was not provided, the following occurred:

- An annual compensation schedule was not approved by the fiscal court
- Two employees received \$1,500 each and no taxes were withheld and it was not reported to the appropriate agencies.
- Retirement was not paid on time and a penalty of \$1,000 was incurred and paid by the county.
- An employee was not working the required 35 hours per week, to be considered full-time, per the fiscal court's Policy and Procedures Manual, however they received full-time county benefits including paid holidays, 5 vacation days and 12 sick days per year, and county paid single coverage health insurance.
- Office personnel did not know their sick leave balances.

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend the fiscal court separate the duties of entering the information necessary to process the payroll into the computer system, preparing the documentation, including the checks, to transfer monies from the County's Funds into the payroll revolving account, posting the payroll expenditures to the appropriations ledger and reconciling the payroll bank account. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive Darren Farmer's Response: Staff will discuss and try to resolve above findings.

2009-17 The County Should Ensure Receipts And Expenditures Are Accounted For Properly

During revenue testing, auditor noted several instances where receipts were posted to incorrect receipt account codes. Tangible taxes received from the Sheriff were posted in the real estate property tax code. Jail revenues from the state were posted in several different account codes. Ambulance fund receipts for wireless 911 receipts were posted in the ambulance billing service receipts and vice versa. Ensuring receipts are accounted for in correct account codes help the county with budgeting and other normal business procedures.

During testing, auditors noted checks were not used in sequence. Also, check numbers on the bank reconciliations did not agree to the cancelled checks on the bank statements. The treasurer has to review the bank statements very thoroughly and change check numbers to ensure they are accurate. This should be completed when checks are printed and reviewed. Furthermore, during the audit, we noted an instance when a check was printed for payroll matching but the total checks included an amount due to a vendor. The county did not find this until after the check was deposited into the payroll account. All payroll checks should be traced to supporting documentation before deposits are made. All checks should be agreed to check register before being mailed to eliminate the confusion and added time necessary to complete bank reconciliations.

The County Treasurer did not post principal and interest payments for Road fund leases to a debt service account code. These payments were posted to an operating account code in the Road fund. We recommend all principal and interest debt service payments to the appropriate debt service account code.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended June 30, 2009
 (Continued)

INTERNAL CONTROL OVER FINANCIAL REPORTING - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES (Continued)

2009-17 The County Should Ensure Receipts And Expenditures Are Accounted For Properly
 (Continued)

The county should ensure receipts and expenditures are posted and accounted for properly. If review procedures are set in place, the county could cut down time spent correcting issues found during bank reconciliation procedures and audit time spent trying to determining disposition of receipts and expenditures.

County Judge/Executive Darren Farmer's Response: (A) Action will be taken to correct receipts and expenditures and posting. (B) Staff will be made aware of the importance in check sequence. (C) It was not a wrong posting, the original budgeted amount was not increased enough to cover entire principal amount. Therefore, a transfer was made for the interest line item to cover principal amount. (D) Action will be taken to improve these findings.

2009-18 The Jail Should Improve Controls Over Collections For Jail Fees And Inmate Moneys

During jail commissary testing, we noted the following issues pertaining to the receipt function:

- Receipts were not issued in numerical sequence.
- All receipts were not maintained for collections posted in Mugshot accounting software. Voided receipts were thrown away.
- Receipts were not issued in triplicate.
- Checkouts were not prepared daily. Most were prepared on a weekly basis.
- Deposits were not made on a daily basis. Most were made on a weekly basis.
- Checkouts prepared by the Mugshot computer system did not agree to the corresponding receipts compiled and deposit made.
- No receipts were maintained for cash collected for booking and bond/release fees only accounted for on log sheets.
- No checkouts were prepared for cash collected for booking and bond/release fees not accounted for in computer system.
- No receipts journal was maintained that accounted for all collections of the jail. Cash collected from inmates upon incarceration or release for booking and bond/release fees were only maintained on log sheet and not posted in the Mugshot accounting software.
- Cash is taken to the treasurer at various times for booking and bond/release fees not accounted for on computer system.

Due to the high volume of cash transactions, the Powell County Jail is extremely susceptible to fraud. As noted, there was \$48,088 of undeposited receipts in the jail commissary from April 1, 2009 through February 28, 2010. To help offset some of these risks, we recommend the jail implement the following procedures:

- Prenumbered receipts in triplicate should be written and maintained for all moneys collected at the Jail. Receipts should be used in numerical sequence. All void receipts should be maintained.
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- All collections should be deposited daily.
- Checkouts should be prepared daily based on total receipts issued and agreed to the amount deposited.
- All moneys collected should be deposited into the jail commissary account and accounted for on the receipts journal.
- Booking and bond/release fees should be paid by check to the treasurer on a regular basis either weekly or monthly as soon as collected.

POWELL COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

INTERNAL CONTROL OVER FINANCIAL REPORTING - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES (Continued)

2008-18 The Jail Should Improve Controls Over Collections For Jail Fees And Inmate Moneys
(Continued)

County Jailer Melvin Rogers' Response: Presently we are getting the receipt numbers in order. Swanson's took over our commissary fund on 2-8-10. A kiosk is located in our lobby which Swanson's controls. We have two people who deposit the commissary money daily. Through Swanson the new commissary fund is closed out each month and balanced each month. Two people take the bank deposit and initial off on the receipt. I have the only key to the bond box. Myself and one other person balance it daily or when money for the bonds/releases are deposited. This is then forwarded to the Clerk's office.

2009-19 The Jailer Should Improve Internal Controls Over Disbursements

The jail did not maintain a disbursement journal for the jail commissary. They did maintain a listing of checks written for certain vendors. However, this listing did not include all checks. The jailer should ensure all checks written are posted to a disbursements journal. Each check written must be posted to the proper category listed, such as inmate account refund, entertainment expenses, state payroll, other expenses and inventory. Checks should be issued for all expenditures. The disbursements journal totals per category should be used to complete the jail commissary summary and reconciliation. The jailer could further improve controls by requiring dual signatures on checks or have an independent individual review checks, invoices, and agreement to the disbursement ledgers.

County Jailer Melvin Rogers' Response: We maintain a checkbook for the old commissary account. Upon recommendation of the auditors we are now using and getting up to date a disbursement journal listing. Myself and one other person are the two people who can sign a check. Every check that we write has a corresponding receipt and the bill is marked paid/date/check number, etc.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

POWELL COUNTY FISCAL COURT

**For The Year Ended
June 30, 2009**

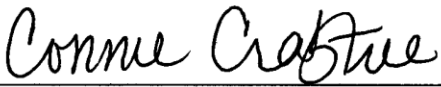
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
POWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009

The Powell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Darren Farmer
Powell County Judge/Executive



Connie Crabtree
Powell County Treasurer

